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C E N T R A L I N T E L L I G E N C E A G E N C Y

Office of National Estimates

28 February 1957

MEMORANDUM FOR THE DIRECTOR OF CENTRAL INTELLIGENCE

SUBJECT: The Present Situation in Spain

Conclusions

1. Franco's position has been somewhat weakened by a deteriorating economic situation, by growing student and labor opposition, and by factionalism within the ruling coalition. However, the army and police remain loyal, and the rightist groups (the business, landholding and church interests) backing the Caudillo have given little indication that they are ready to abandon Franco and risk the grave danger of internal turmoil that would result. We believe, therefore, that while popular resentment may continue to grow, Franco will be able to control the situation for another two years or so. We do not believe that the recent cabinet reshuffle will result in any major reorientation of Spanish domestic or foreign policies. The question of the succession remains as obscure as ever. We do not believe that the Franco regime or any likely successor will withdraw US base rights.

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Recent Trends

2. Inflationary pressures have intensified since mid-1956 and have become especially strong during the past three months. Discontent has been recently manifested among student and labor groups. The government, through deficit financing of an ambitious public investment program, the failure to curb the rapid growth of credit, and the granting of liberal wage increases, is largely responsible for the inflationary pressures. The US base program, though blamed by some Spanish opinion, does not appear to have contributed significantly to the present economic difficulties.

3. Since the beginning of the year the stability of the regime has been mildly upset by the efforts of the Falange to expand its political role. Franco in May of 1956 initially endorsed these efforts. However, the rightist groups in the governing coalition, including the military, reacted, and at the year's end, friction among the government's supporters, particularly between the Falange and anti-Falange groups, had notably increased. In the showdown, Franco seems to have sided with the latter, and has apparently jettisoned most of the Falange-sponsored program.

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4. On 25 February, Franco carried out a major cabinet reshuffle, the first since 1951. He named 12 new cabinet members and created two new ministries. Although it is still too early to estimate the ultimate significance of this move, the traditional balance among Falangists, Monarchists, church, and military men in the various cabinet posts has not been materially altered, nor has there been any apparent change in the political orientation of the regime. The question of the succession remains as obscure as ever. With respect to economic policy, the dismissal of the austerity-minded Ministers of Commerce and Finance indicates that the "soft-money" advocates have gained the upper hand. Consequently, the problem of inflation may become more serious.

Probable Developments

5. We believe that Franco will be able to control the situation for another two years or so for the following reasons:

a. The rightist coalition is still held together by its fear of popular forces. The rightists now have no alternative leader possessing the political sagacity and military prestige of Franco, and they are generally eager to avoid any political experimentation that might lead to civil war.

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b. The army is almost certainly loyal to Franco, particularly since he apparently heeded its warnings not to allow the Falange to get too powerful. Also latent military discontent in the lower officer ranks was probably somewhat mitigated by the liberal June 1956 pay increase. Further, the police, whose loyalty has not been questioned, recently demonstrated that they are capable of restoring and maintaining order.

c. The Falange, though disgruntled over its recent setback, is unlikely to break openly with the regime for it has much to lose by such a break. It is one of the weakest of the coalition groups and its immediate potential for winning popular support is very limited.

6. Although there are serious dangers inherent in the present inflationary trend, we do not believe that Spain is on the threshold of runaway inflation. On the whole, it seems probable that Franco and his backers, because of necessity, will take some steps to prevent the present economic crises from getting completely out of hand. However, the regime is unlikely to undertake any substantial retrenchments. Franco probably

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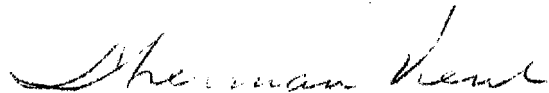
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assumes that the US will assist Spain in the alleviation of present difficulties and that the US will come through with emergency assistance in the event of an economic crisis.

7. We believe that the Franco regime or any likely successor will not withdraw existing US base rights. However, especially in case of increased economic difficulties, Spain will seek increased aid from the US and will be less cooperative if such aid is not forthcoming.

FOR THE BOARD OF NATIONAL ESTIMATES:



SHERMAN KENT
Assistant Director
National Estimates

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